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UNCLAS SECTION 01 OF 04 TAIPEI 004779

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Economic Briefing for November 2005

REF: (A) Taipei 4764; (B) Taipei 3572

[1](#). This cable summarizes selected economic events in Taiwan in November 2005:

--New accounting system for national income statistics

--Alternate Minimum Tax Bill

--Foreign investor acquires local bank

--Compulsory licensing for Tamiflu

--National Communication Commission

--Hong Kong-Taipei flights proposed

--Cross-Strait government co-investment

--Taiwan TFT-LCD panels

--Taiwan offshore production dominates IT

Taiwan adopts UN National Accounts System

[1](#)2. In November, Taiwan replaced the 1968 version of the U.N. System of National Accounts with an accounting system based mainly on the 1993 U.N. System of National Accounts (93SNA) in its compilation of national income statistics. The 93SNA includes in gross domestic product (GDP) four categories of expenses excluded from the 68SNA GDP. These four categories are 1) mining exploration expenditure, 2) computer software expenses (now treated as capital formation), 3) banking services for government and households, and 4) depreciation of public infrastructure (now classified as final consumption). Consequently real GDP growth in 2004 was changed from 6.06% to 6.07% and the 2004 per capita GDP increased by 5% from US\$13,595 to US\$14,271. Based on the 93SNA, the Taiwan government estimates the island's economic growth will rise from 3.80% in 2005 to 4.08% in 2006. The 93SNA changes the components of 2004 GDP to 72.73% for the service sector (up from 68.79% based on the 68SNA), 1.68% for agriculture (down from 1.74%), and 25.58% for industries (down from 29.54%).

Taiwan Legislature's First Reading of AMT

[1](#)3. In late November the Legislative Yuan (LY) finished its first reading of the Alternate Minimum Tax Bill. Under the current version of the Bill, individuals with over NT\$6 million (about US\$180,000) income will be subject to a 20% AMT. Three years after the new tax law is adopted, the AMT will be expanded to include overseas income. The AMT corporate tax rate will be 10-12% on income above NT\$8 million (about US\$240,000). About 15,000 people will be required to pay the AMT according to an estimate by the Ministry of Finance. The AMT is expected to cut listed companies' profit margins by 3% to 5% and may affect semiconductor, TFT, and other high-tech industries exempt from most tax, more than other sectors. A recent Gallup poll for CLSA showed broad support for the AMT.

First Foreign Acquisition of Local Bank

[1](#)4. On November 28, Nassau Inn Investments Limited acquired 61% equity in Business Bank of Hualien (BBH) for a cost of NT\$1,000 million (US\$30 million). This will be the first foreign acquisition of majority ownership of a local bank (most of the funds are reportedly from European and American

investors). The acquisition will help Taiwan resolve problems at one of the eight banks designated by the Financial Supervisory Commission (FSC) as targets for the (now-defunct) Financial Reconstruction Fund. In September 2005, BBH failed to meet FSC requirements with a non-performing loan (NPL) ratio of 10% and a capital adequacy ratio of 1.4%. Nassau Inn is expected to improve and sell BBH rather to hold and manage it.

Compulsory Licensing for Tamiflu Production

15. Taiwan's Intellectual Property Office (IPO) issued a compulsory license for Tamiflu production to Taiwan's Department of Health (DOH) on November 25 (ref A). The authorization will be valid from November 25 to December 31, 2007. Tamiflu produced under the compulsory authorization will be limited to use when products made by the rightsholder Roche are insufficient to meet demand. DOH is required to pay as yet undetermined royalties to Roche. At present, Taiwan intends to buy from Roche only enough Tamiflu to stockpile for 10% of the population.

National Communication Commission (NCC)

16. In late November 2005, the ruling party nominated ten NCC commissioner candidates and the opposition parties proposed eight. The 18 candidates include National Chengchi University (NCU) Mass Media College Dean Wong Shiu-chi (nominated by the ruling DPP party), NCU Law Professor Su Yung-ching (nominated by the opposition KMT Party), and former KMT-owned China Broadcasting Company President Liu Chu-yuan (nominated by the opposition PFP Party). The NCC Commissioner Review Committee will select 13 out of the 18 candidates to constitute the NCC in the next few weeks.

Flights from Hong Kong to Downtown Taipei Airport Proposed

17. In mid November, 116 legislators including DPP, KMT and PFP members, proposed opening downtown Taipei's Sungshan Airport to flights from Hong Kong and Macao. Far Eastern Air Transport and TransAsia Airways both voiced support for the proposal. The Ministry of Transportation and Communications has also expressed its support, and the Civil Aviation Administration (CAA) is doing a feasibility evaluation. The CAA has indicated that the proposal will require approval by the Mainland Affairs Council (MAC) and national security agencies. On November 16, legislators froze the MAC operating budget for 2006 pending approval of Hong Kong and Macao flights at Sungshan Airport among other conditions.

Cross-Strait Flag Carriers Co-invest

18. Taiwan's government-controlled China Airlines (CAL) announced November 15 plans to acquire a 20-percent stake in Hong Kong-based China Aircraft Service Ltd. (CAS). CAS is an aircraft maintenance and cleaning service provider with (PRC government-owned) Air China, (US) United Airlines and (Hong Kong) Hutchison Whampoa Limited as major shareholders. Air China is the largest shareholder with a 53-percent stake. In addition, the Ministry of Economic Affairs approved another Mainland investment proposal from CAL and two Taiwan shipping companies, Wan Hai Lines and Yangming Marine Transport, to purchase a 43 percent stake in the PRC government-invested cargo airline, Yangtze River Express (ref B).

Taiwan TFT-LCD Manufacturers Investing in PRC

19. On November 14, Taiwan's Chunghwa Picture Tubes Ltd. announced plans to purchase a 29-36 percent stake of China's Xiamen Overseas Chinese Electronics Co., Ltd. (XOCECO). The PRC firm manufactures televisions and monitors, sold internationally under the "Prima" brand. The board of Chunghwa Picture Tubes expects to complete the purchase within six months. The sale would make Chunghwa Picture Tube China's second largest LCD TV manufacturer. On November 10, Taiwan's Toppoly Optoelectronics Corp. and Royal Philips Electronics announced plans to form a new company in China. Toppoly is a subsidiary of Taiwan's Compal Electronics Group. Toppoly already has a TFT-LCD display factory in Nanjing. Taiwan firms currently are not permitted under Taiwan law to invest in TFT-LCD panel manufacturing facilities in the PRC. However, there is no prohibition against investment in manufacturing TFT-LCD modules from imported panels.

110. The value of Taiwan-made large-scale TFT-LCD panels will increase 31% this year to US\$17.6 billion. Large-scale TFT-LCD panel exports will reach 93 million pieces,

surpassing South Korea's exports of 88 million pieces. The strong demand for LCD TVs, monitors, and laptop PCs, has contributed to rapid expansion of Taiwan's TFT-LCD industry. Taiwan's seven TFT-LCD producers took 45% of the world market in the second quarter this year, and have plans to invest an additional NT\$120 billion (US\$3.58 billion) in construction of "7.5G" (the most advanced) plants. Corning Inc. has decided to invest an additional US\$450 million to expand its glass substrate production facilities in Taiwan. Taiwan's TFT-LCD industry has attracted up-stream suppliers from Japan and South Korea to invest in Taiwan.

Taiwan IT Leads the World

11. Taiwan manufacturing firms are dominating world markets through production bases in China, particularly for information technology (IT) products. According the Marketing Intelligence Center (MIC) of the Institute for Information Industry, Taiwan companies dominated the following IT product categories (with estimated 2005 global market share in parentheses) : motherboard (98.3%), laptop PC (82.4%), large scale LCD (46.9%), WLAN cards (89%), wireless access point (59%), VoIP IP phones (77%), customer premise equipment (75%), and internal VOIP phone routers (83%). The MIC estimates that Taiwan's IT hardware outputs, excluding semiconductors, will increase by 15 percent this year to US\$80 billion and by 9.5 percent in 2006 to US\$87.5 billion. Laptops, with an output of US\$30.2 billion, are the most valuable IT products. A recent survey conducted by the Ministry of Economic Affairs showed that 71.7% of export orders for Taiwan IT products were manufactured overseas, mainly in China.

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